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MILLENNIUM CHALLENGE CORPORATION

MCC FR 15-04

Notice of Entering into a Compact with the Republic of Liberia

AGENCY: Millennium Challenge Corporation

ACTION: Notice

SUMMARY: In accordance with Section 610(b)(2) of the Millennium Challenge Act of 2003 (22 U.S.C. 7701-7718) as amended (the Act), and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, the Millennium Challenge Corporation (MCC) is publishing a summary of the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Republic of Liberia. Representatives of the United States Government and Liberia executed the Compact documents on October 2, 2015. The complete text of the Compact has been posted at <https://assets.mcc.gov/documents/compact-liberia.pdf>.

Dated: October 7, 2015.

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## **Summary of Millennium Challenge Compact with the Republic of Liberia**

### **Overview**

MCC has signed a five-year, nearly \$257 million Compact with the Republic of Liberia aimed at reducing poverty and accelerating economic growth. The Compact seeks to address two binding constraints to economic growth in Liberia: lack of access to reliable and affordable electricity, and inadequate road infrastructure.

### **Program Overview and Budget**

Liberia first became compact eligible in fiscal year (“FY”) 2013, but failed the scorecard in FY 2014, largely due to a change (by the indicator provider, not the government of Liberia) in the methodology for collecting and reporting on data associated with the Natural Resource Protection Indicator. As a result, MCC’s Board of Directors authorized MCC to continue development of a compact, but with the expectation that Liberia again pass the scorecard prior to the compact coming forward for approval. In FY 2015, Liberia passed its scorecard: it met ten of the twenty indicators, including the Control of Corruption and Democratic Rights “hard hurdles.” An analysis completed in September 2013 found lack of access to reliable and affordable electricity and inadequate road infrastructure to be binding constraints to growth in Liberia.

The high cost and unreliability of publicly provided electricity (at \$0.52 per kilowatt-hour, one of the world’s highest electricity tariffs), coupled with limited electricity grid infrastructure (currently the electric utility, Liberia Electric Corporation (“LEC”), has an installed generating capacity of only 22 megawatts (“MW”) mean that less than two percent of Liberia’s approximately four million citizens have access to the network, imposing a significant barrier to Liberia’s long-term economic development. Similarly,

inadequate capacity to plan for, finance and execute maintenance on the predominately unpaved road network, coupled with sustained rainfall for nearly half the year (which renders many of these roads impassable), undermines national and regional trade opportunities, threatens sustained political stability and severely constrains economic growth and social diversification. The Compact will address these issues through the following investments in wide-ranging policy reforms, institutional strengthening, and infrastructure:

- Increasing Liberia's domestic generation capacity by up to 88 MW through investment in rehabilitation of the Mount Coffee Hydropower Project (with the European Investment Bank, and the governments of Norway and Germany);
- Supporting sustainability in the power sector by, among other things, providing training for LEC employees and support to establish an independent regulator; and
- Supporting sustainability in the roads sector, including re-establishing regional maintenance centers and standing up a dedicated fund.

The budget for the Compact is approximately \$257 million, allocated as follows (figures are approximate due to rounding):

#### **Compact Budget Summary**

<b>Project/Activity</b>	<b>Budget (in US \$)</b>
<b>Energy Project</b>	
<b>Mt. Coffee Rehabilitation Activity</b>	\$146,800,000
<b>Mt. Coffee Support Activity</b>	\$ 18,100,000
<b>LEC Training Center Activity</b>	\$ 5,500,000
<b>Energy Sector Reform Activity</b>	\$ 31,190,000
<b>Energy Project Subtotal</b>	<b>\$201,590,000</b>
<b>Roads Project</b>	
<b>National Road Maintenance Activity</b>	\$ 15,000,000
<b>Roads Sector Reform Activity</b>	\$ 6,070,000

<b>Roads Project Subtotal</b>	<b>\$ 21,070,000</b>
<b>Monitoring and Evaluation Project</b>	
<b>Monitoring and Evaluation Activity</b>	\$ 5,500,000
<b>Monitoring and Evaluation Project Subtotal</b>	<b>\$ 5,500,000</b>
<b>Compact Administration</b>	
<b>MCA-Liberia Administration</b>	\$ 17,066,000
<b>Financial Management and Procurement Controls</b>	\$ 9,500,000
<b>Financial Audits</b>	\$ 2,000,000
<b>Compact Administration Subtotal</b>	<b>\$ 28,566,000</b>
<b>Compact Grand Total</b>	<b>\$256,726,000</b>

The Energy Project aims to improve various aspects of the energy sector in Liberia. The Mt. Coffee Rehabilitation Activity aims to increase the amount of electricity generated in Liberia, facilitate a decrease in the overall electricity tariff, and contribute to increased reliability and adequacy of electricity. This activity addresses the overarching problem in the energy sector, *i.e.*, lack of access to affordable and reliable electricity, by targeting the insufficient supply of electricity in Liberia. Complementary activities in the Energy Project should support the results of the Mt. Coffee Rehabilitation Activity, address other root cause problems in the sector and/or mitigate negative impacts and risks of the investment, such as the risk of increased saltwater intrusion in the municipal water supply.

The Roads Project aims to improve the quality of Liberia's road network by supporting the piloting of a new road maintenance regime and building capacity within the sector. Improved management of the road sector is expected to decrease vehicle operating costs and provide time savings for road users.

## **Energy Project (\$201.6 million)**

The Energy Project is comprised of the following four interlinked activities aimed at enhancing power generation, strengthening the capacity of key sector institutions, and supporting the development of foundational policies as the sector modernizes and becomes more commercially viable.

**1. Mt. Coffee Rehabilitation Activity (\$146.8 million).** MCC funding along with funding from other donors will cover: (i) the expected cost of the Mt. Coffee Hydropower Plant's fourth turbine, allowing the rehabilitated plant to generate up to 88 MW of power once operational; (ii) unfunded gaps between existing and available other stakeholder commitments and a total cost to complete the project at \$357 million (which includes contingencies to provide a 98 percent confidence level that the costs will not exceed that amount); (iii) the cost of a second 66 kilovolt transmission line from the Mt. Coffee Hydropower Plant to a substation at Paynesville; and (iv) the cost of rehabilitating a raw water intake located inside the reservoir. MCC's investment in the rehabilitation of the Mt. Coffee Hydropower Plant will take advantage of an existing project and financial management structure (the project implementation unit ("PIU") being used by the other international donors. Like an accountable entity, the PIU is a single-purpose government of Liberia entity with the responsibility for managing and overseeing the rehabilitation of the Mt. Coffee Hydropower Plant. The PIU is composed of Liberian and international experts and will remain subject to applicable MCC-mandated audits. MCC will be part of the PIU's donor oversight committee, and MCC funds will be isolated in a new, separate project bank account, to be established.

**2. Mt. Coffee Support Activity (\$18.1 million).** In its assessment of the rehabilitation of the hydropower facility, MCC concluded that additional areas of support would be required to better mitigate environmental and social risks and ensure long-term sustainability that could not be procured under the contract structures already in place. These include (i) the provision of small-scale community infrastructure (foot bridges, water points, pit latrines, *etc.*) for project affected persons, (ii) additional human resources support to the activity's project implementation unit to ensure timely and professional management, oversight and reporting, (iii) a watershed management plan (including climate change and fisheries studies), and (iv) rehabilitation of the raw water transmission line from the Mt. Coffee reservoir to the White Plains Water Treatment Works.

**3. LEC Training Center Activity (\$5.5 million).** MCC funding will support the construction of a training center for LEC and the provision of equipment and training materials. The LEC training center will form the core base for training of technicians in the electricity sector. The training center will provide training in the following core areas: (i) transmission and distribution, (ii) electrical, (iii) mechanical, (iv) hydro-electric, and (v) other specialized training. The proposed training center will also provide training for the director, instructors, and support staff of the LEC training center, who will be hired as employees of LEC.

**4. Energy Sector Reform Activity (\$31.2 million).** The Energy Sector Reform Activity aims to provide support to the key institutions responsible for policy making, investment planning, asset management, and environmental and social oversight – namely the Ministry of Lands, Mines and Energy, LEC and the Liberian Environmental

Protection Agency. With considerable donor financing secured for new transmission, distribution and generation infrastructure as well as residential and commercial connections, the proposed activity and its components have been developed to complement support programmed by other sector stakeholders. The central components of this activity are:

i. The provision of support for the development of an independent regulator which is seen by all sector stakeholders as necessary within the next three to five years, given the levels of investment in the sector and the proposed expansion plans. MCC assistance will help establish the regulator within the Department of Energy until such time as it can function independently. Work to establish the regulator will be done in cooperation with the European Union, which is separately assisting the Department of Energy as a whole. Compact funding will also provide for a situation assessment of the energy sector, development of a financial model for the sector, analyses of demand, willingness to pay, connections, and cost of service, and the design of a regulatory information system;

ii. Support to the enhancement of the capacity of the Liberian Environmental Protection Agency to better manage its core functions, including environmental licensing and permitting, review and approval of environmental and social impact assessments and management plans, review and approval of resettlement action plans, and monitoring and oversight of the implementation of these plans to mitigate environmental and social risks. This support will include the provision of technical assistance and capacity building for staff of the Liberian Environmental Protection Agency and the provision of material support such as IT upgrades and laboratory equipment; and

iii. Support to the implementation of a management arrangement for LEC. As part of Compact development, MCC has worked with the government of Liberia to study the options for medium to long-term management of LEC, and the disbursement of Compact funding after February 2016, is conditioned on the government of Liberia's decision to pursue a long-term management solution likely to lead to a financially stable utility based on the results of that study. The form of MCC support will depend on the management arrangement selected, but could, for example, include technical assistance to LEC management and staff in the case that a public management option is selected, or funding and technical assistance to execute a transaction for a private sector management option.

**Roads Project (\$21.1 million)**

Inadequate road infrastructure is a binding constraint to economic growth in Liberia. Rather than a large capital investment directly in road construction or maintenance, however, the Roads Project will focus on institutional strengthening via two activities:

**1. National Road Maintenance Activity (\$15 million).** This activity will pilot up to five Regional Maintenance Centers ("RMC"), including the construction of at least two RMCs, and match government of Liberia contributions (up to \$8 million dollars) into a Road Maintenance Fund (which will be managed by an agency known as the "Road Fund Administration"), which is considered critical for the sustainability of road maintenance.

i. RMCs existed prior to the Liberian civil war and were responsible for providing routine and periodic maintenance under the auspices of the Ministry of Public Works ("MPW"), which owned the maintenance equipment and directly executed road



works. In the post-conflict setting, MPW has moved away from direct implementation of works to contracting maintenance work to the private sector, due to ongoing institutional reforms within the sector. The activity will include the construction of at least two regional RMCs located in the western region of Liberia, in Tubmanburg, Bomi County and the other in the southeastern region, in River Gee County, each covering two additional counties. An RMC will include residential quarters for staff and resident engineers, technicians and operators. RMCs will not be fitted with equipment owned by the MPW; rather they will rely on private contractors to provide the equipment and implement works. MCC may fund the remaining three RMCs, depending on successful completion of the first two and an assessment of their viability.

ii. The Road Fund Administration will be created by the government of Liberia during the first year of the Compact and will exist as a stand-alone entity under the Ministry of Transport, with the primary responsibility of collecting, managing, and disbursing money in a Road Fund dedicated to periodic road maintenance. The fund will be supported by revenues from a fuel levy, vehicle licensing and registration fees. MCC will match the government of Liberia's contributions to the Road Fund on a one-to-one basis up to \$8 million during the Compact term, subject to measurable indicators of performance on maintenance planning, capacity, and implementation.

**2. Roads Sector Reform Activity (\$6.1 million).** This activity will provide for capacity building and technical assistance at the national and regional level, including training support for RMCs, the Ministry of Public Works, the Ministry of Transport, and Road Fund Administration staff in transportation planning, policy, maintenance, and institutional systems from the local to international level.

i. Data on Liberia's road network is sparse; even the most comprehensive traffic counts collected for the Transport Master Plan of 2010 have significant gaps in the primary road network and little to no data for the secondary network. Therefore, data collection on roadway conditions and traffic counts will be carried out under the Compact, including on primary, secondary and feeder roads. This data will then be used to inform sector planning, including a network analysis to support efforts to prioritize road rehabilitation and maintenance.

ii. Compact activities to increase the capacity of the many actors in the roads sector will be coordinated with and complement the activities of other donors, building on current efforts of the donor working group. Compact funding will support an axle load control law, strengthening the operational framework of the Road Fund and its administration, training in transportation planning methods, development of a five-year transportation asset management plan for Liberia, urban transportation planning in Monrovia, and a review of existing policies on road safety to develop recommendations for updates and their implementation. These activities will be undertaken in partnership with the US Department of Transportation.

### **Economic Analysis**

Currently, the supply and distribution of electricity in Liberia are extremely limited, both in terms of the number of connections and the total demand of those connections. Current customers pay a high tariff, due to the expensive fuel price for the high-speed diesel generators that are currently used for LEC's entire supply of electricity. After the completion of the Mt. Coffee Rehabilitation Activity, existing customers on the grid will receive a one-time benefit of the drop in tariff, and after that will receive

benefits based on their consumption of grid-delivered electricity, as measured by the amount they pay for electricity.

Demand for electricity and the provision of new connections to the grid drive MCC's economic model for the Energy Project. Using a "base case" scenario developed as part of Liberia's Electricity Sector Least Cost Development Plan (which assumes 90,000 new household connections and 1,450 new industrial connections by 2020), the project yields an economic rate of return ("ERR") of 11 percent with the possibility of variation, based on the number of additional connections made by LEC during the lifetime of the Compact.

This figure is inclusive of all capacity building activities that support the Mt. Coffee Rehabilitation Activity (both operations and maintenance) and connecting new customers to the grid (*e.g.*, the LEC Training Center Activity).

Economic analysis for the Roads Project is pending, but will be complete once designs and feasibility studies are complete. Road maintenance programs of this nature typically have strong ERRs and these projects will be subject to MCC's normal investment criteria.

### **Update on Liberia Threshold Program**

Liberia was selected as eligible to receive MCC threshold program funding in 2010 and the \$15.1 million program was then implemented by USAID from July 2010 to December 2013. It included three components:

- 1. Strengthen Land Rights and Access.** This project was designed to improve the policy and legal frameworks for land management and thereby increase security of

tenure, investment in land, and land market activity. A great success of this project, though an unintended one, was the creation of a stand-alone land agency. Twenty-five communities successfully prepared land rights inventories.

**2. Improve Girls' Access to Primary Education.** This project aimed to improve girls' primary education enrollment and retention. It was designed as a research-based project to increase educational opportunities for primary school girls in selected communities in three counties, and tested three different intervention models. Girls' attendance rates at all 40 school programs increased beyond project targets, and baseline enrollment of girls increased by 23 percent, in comparison to a decrease of over 19 percent in control schools.

**3. Improve Trade Freedom.** This project intended to improve Liberia's trade freedom and to enable Liberia to participate more effectively in the Economic Community of West African States by improving performance on key policy measures. As a result of the project, the government of Liberia eased requirements for processing import and export declaration permits. The project also provided support to government of Liberia efforts to revise policies in a way that would lead to accession to the World Trade Organization; Liberia's accession is expected to be concluded by December of this year.

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